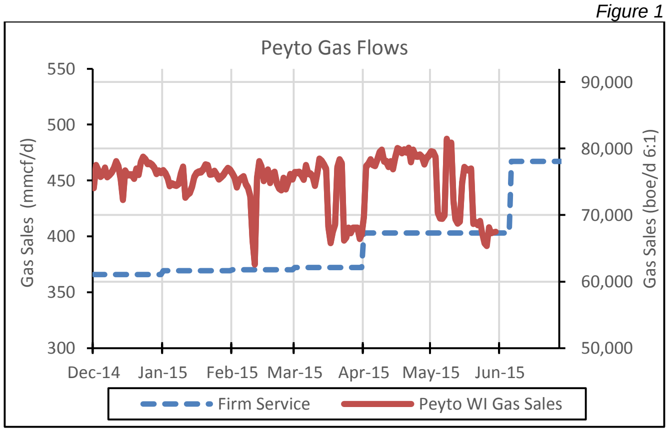
# Peyto Exploration & Development Corp.
# President's Monthly Report

June 2015

From the desk of Darren Gee, President & CEO

May has been another month of firm-only transportation curtailments (some days even less) on Trans Canada's NGTL system, so we decided to start conducting turnarounds on our plants while we're restricted in order to minimize downtime later this year. Thankfully in June we'll have a significant chunk of additional firm to handle the new production capability we've already added (Figure 1). Sooner or later, we expect TCPL will be done with all this maintenance and we'll be back to producing at capability which should be north of 87,000 boe/d.

*Figure 1*




*Source: Peyto*

As in the past, this report includes an estimate of monthly capital spending as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below).

## Capital Investment*

***2014/15 Capital Summary (millions$ CND)****

| | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | 2014 | Jan | Feb | Mar | Q1 | Apr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acq. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.3 | 2 | 0 | 1 | 3 | 0 |
| Land & Seismic | 7 | 8 | 0 | 4 | 1 | 1 | 6 | 21.3 | 0 | 0 | 4 | 4 | 1 |
| Drilling | 80 | 68 | 83 | 28 | 29 | 24 | 81 | 310.8 | 26 | 18 | 25 | 70 | 19 |
| Completions | 36 | 48 | 46 | 20 | 16 | 17 | 54 | 183.1 | 16 | 13 | 14 | 43 | 11 |
| Tie ins | 16 | 10 | 11 | 7 | 5 | 3 | 14 | 51.3 | 2 | 2 | 3 | 7 | 3 |
| Facilities | 40 | 16 | 40 | 14 | 6 | 5 | 26 | 122.2 | 5 | 6 | 1 | 12 | 2 |
| **Total** | **179** | **151** | **180** | **73** | **56** | **50** | **180** | **690** | **52** | **39** | **47** | **138** | **35** |

## Production*

***2014/15 Production ('000 boe/d)****

| | Q1 14 | Q2 14 | Q3 14 | Q4 14 | 2014 | Jan | Feb | Mar | Q1 15 | Apr | May |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sundance | 49.4 | 51.7 | 57.2 | 59.4 | **54.4** | 57.8 | 56.5 | 55.3 | 56.5 | 57.9 | 54.5 |
| Ansell | 15.7 | 14.2 | 14.3 | 16.5 | **15.2** | 17.2 | 16.7 | 16.6 | 16.8 | 17.1 | 14.6 |
| Brazeau | 1.6 | 1.3 | 1.2 | 3.2 | **1.8** | 3.9 | 4.4 | 4.7 | 4.3 | 6.9 | 6.3 |
| Kakwa | 2.4 | 2.4 | 2.4 | 2.3 | **2.4** | 2.2 | 2.1 | 2.3 | 2.2 | 2.2 | 2.2 |
| Other | 3.2 | 2.5 | 2.4 | 2.0 | **2.5** | 1.9 | 1.9 | 1.4 | 1.7 | 1.8 | 1.0 |
| **Total** | **72.3** | **72.1** | **77.5** | **83.3** | **76.3** | **83.0** | **81.6** | **80.3** | **81.6** | **85.9** | **78.6** |

***This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.***

## Provincial Political Pontificating

It's good to see Albertans haven't lost their sense of humor. Even if they have been rather irresponsible with their democracy. The recent provincial election saw Albertans exercise a protest vote against the ruling PC government which went a little too far, or was practiced by a few too many, and in the end we had a government that the majority of Albertans didn't really want. At least according to everyone I've talked to.

Thankfully, when you tally the ***all*** the votes, the majority of Alberta still leans to the Right, which has always been our traditional bias. I don't believe we've tipped that far overnight to be a province of socialists who no longer believe in our capitalist ideology and the right to pursue ones fortune.

Alberta has long been the beacon of light for the other provinces. One where entrepreneurs with ideas can chase their dreams without the crushing weight of high taxes and government bureaucracy. That's why we've attracted so many businesses to Alberta – and so many jobs. And why I believe our status has long been one of a HAVE province. Not just because we were blessed with all the hydrocarbons.

I suppose it should be heartening that so many Albertans are unwilling to stand by and let the current ruling government make mistakes that threaten that status. With this election result the message to any ruling government should be loud and clear. "We'll oust you if you do!" Fair warning to Rachel Notley and her NDP government as well.

Those fearful of this change in government are afraid that the NDP will behave much like its brethren has in neighboring provinces like BC, Saskatchewan and Ontario. By increasing government involvement and redistributing the wealth of the successful, it would have the effect of choking the economic engine until it stalls. Then, like those other governments did, continuing to fund social programs with debt until irreparable damage is done to the economic prosperity of future generations. That's a hole that takes a long time to dig your way out of, as our neighbors will attest.

Perhaps this fear is justified but I personally don't think Albertans will stand by and let that happen. Instead I believe that, as a province, we are keenly aware of the economic engine which drives our prosperity. And we have just recently experienced periods where it's running smoothly and where it's been starving for fuel (and where the government has been fooling around with the throttle – ie. Stelmach's My Fair Share royalty review). So we know how temperamental that engine is.

Right now, the engine of Alberta is sputtering. Low oil and gas prices have caused a major reduction in capital investment in Alberta that is being felt in all corners of the province. The government take is way down too, both in terms of royalty payments and land sale proceeds (Figure 2).

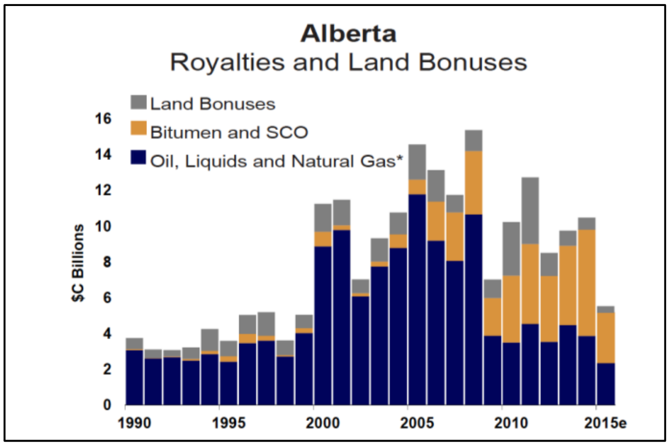
Suite 1500, 250 – 2nd St. SW
Calgary, AB T2P 0C1
Fax: 403 451 4100



TSX Symbol: PEY

E-mail: info@peyto.com

*Figure 2*




*Source: ARC Financial*

Unfortunately, trying to redistribute the reduced revenue isn't the solution. We need to make the pie bigger if we want to have sustainably larger slices for social programs and the like. And there are only two ways to increase the profits "pie" from Alberta's primary economic engine - either increase revenues or reduce costs (at Peyto we've always focused on the cost side allowing us to contribute over $0.75 Billion to provincial coffers).

Think about Alberta like a great big version of Prairie Sky Royalty Corp. If we encourage investment on our Crown land, we will increase the revenue off the lands. So we need to entice more capital investment which will result in more production from which we can collect royalties. That's PSK's strategy and it's a good one, which also seems very popular in the market today. Plus, it has the added benefit of increased employment that also generates income taxes.

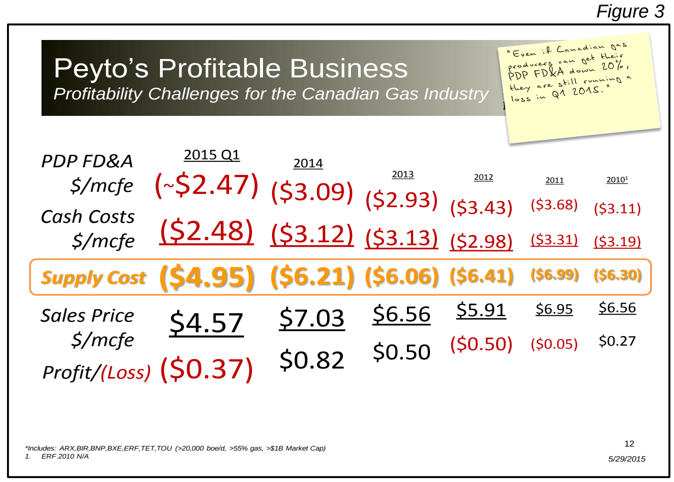
Or we could just increase the royalties we collect on the existing production, which also gives increased revenues in the short term, but discourages future capital investment and ultimately causes production to decline leaving us with less and less royalties in the long run. Not a good strategy.

We can also increase revenues by increasing the price we get for our production by broadening our market. LNG export projects and oil pipelines to get our product to higher priced markets is a good idea. We should promote that.

Lastly, we can increase profits by reducing cost. Just like an E&P company we can focus on reducing G&A and reducing interest costs. Government bureaucracy just like company G&A can be a killer. So we need to be as lean and efficient as possible. Cut out all the fat, improve the processes. And too much debt will ultimately erode a lot of available profit with high interest costs. So living within our means is a good plan too.

In many ways, Rachel Notley is basically running the largest E&P company in Canada. And just like in our industry where the strong survive and the weak fail, Alberta needs to be as financially strong as possible to provide the greatest amount for its citizens (aka shareholders). But times are tough. Just ask the natural gas producers in Canada who have been living with low gas prices for a while. Figure 3 shows their average profitability. As a group, they're just barely scraping by having been forced by low gas prices to re-tool their businesses and reduce cost. Hopefully Premier Notley can learn a thing or two from that strategy and re-tool Alberta to survive low commodity prices as well. One can only hope.

*Figure 3*



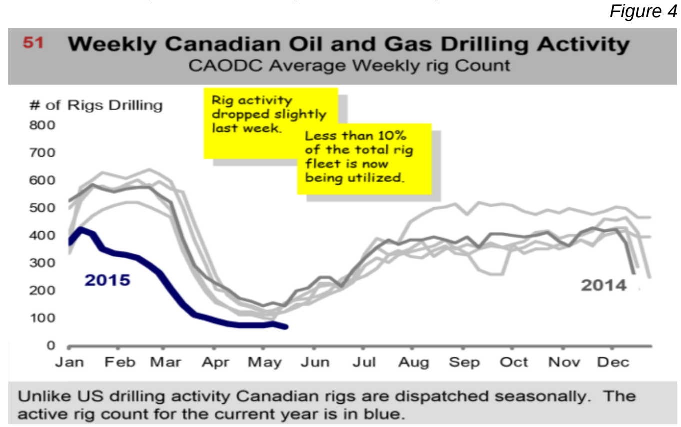

| | 2015 Q1 | 2014 | 2013 | 2012 | 2011 | 2010[1] |
|---|---|---|---|---|---|---|
| PDP FD&A $/mcfe | (~$2.47) | ($3.09) | ($2.93) | ($3.43) | ($3.68) | ($3.11) |
| Cash Costs $/mcfe | ($2.48) | ($3.12) | ($3.13) | ($2.98) | ($3.31) | ($3.19) |
| Supply Cost | ($4.95) | ($6.21) | ($6.06) | ($6.41) | ($6.99) | ($6.30) |
| Sales Price $/mcfe | $4.57 | $7.03 | $6.56 | $5.91 | $6.95 | $6.56 |
| Profit/(Loss) | ($0.37) | $0.82 | $0.50 | ($0.50) | ($0.05) | $0.27 |

*Source: Peyto corp. presentation, company financials*

## Activity Levels and Commodity Prices

Breakup is basically over and yet the drilling rigs are mostly still all racked. A sign of how difficult the times are but also the reason we are seeing cost savings of more than 15% on drilling and over 25% on completions right now. It's a good time for Peyto to be investing as part of its counter cyclical strategy. Which is why we're at 8 rigs and looking for more.

*Figure 4*




*Source: ARC Financial*


Suite 1500, 250 – 2nd St. SW
Calgary, AB T2P 0C1
Fax: 403 451 4100
TSX Symbol: PEY
E-mail: info@peyto.com